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# An Address on the Subject of the Usury Laws.

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## AN ANSWER

TO THE

HON. JOHN WHIPPLE, OF RHODE ISLAND,

BY

JAMES GALLATIN,

DELIVERED

BEFORE THE BOARD OF CURRENCY, OF NEW YORK,

ON WEDNESDAY EVENING, FEBRUARY 2, 1859,

IN THE

HALL OF THE NEW YORK HISTORICAL SOCIETY;

WITH

## AN APPENDIX.

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A D D R E S S .

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In the preface to an edition of Mr. Whipple's pamphlet on the Usury Laws, published at Boston in 1857, will be found a letter of Hon. W. W. Wick, of Indiana, dated March 7, 1849. This letter states "That in Indiana, the Usury Laws were repealed twelve or fourteen years ago, (1835, '36, '37.) Many (persons) were sold out of house and home ere public attention was called to the subject. \* \* \* Had the Legislature not interfered and tied the hands of the spoiler, an immense amount of property would have changed hands in a few years." We all know that, stimulated by the example of New York, (without duly considering the difference of position,) Indiana undertook the construction of the Wabash and Erie Canal; it was necessary to borrow money for the purpose of building this canal, and the bonds of the State were issued. The land in the neighborhood of the canal rose immensely in value. The years 1835 and 1836 were years of the wildest speculation and over-trading. The State of Indiana plunged heedlessly into internal improvement speculations. The banks expanded the currency, and when the reaction came, and a contraction could not be avoided, some of these institutions, loaded down with fictitious paper and dishonored State bonds, were immediately swept out of existence. The bank of Mr. Biddle, styled the Bank of the United States, after a year or two of vain struggles, broke down into hopeless bankruptcy. Not only many of the citizens of Indiana who had speculated wildly in lands became insolvent, but the State itself could not pay the interest on its bonds, and had to resort to temporary expedients in order to pay the salaries of its officers. Now, what does this detail of facts show? It shows in the clearest manner that that abyss of evils into

which Indiana was precipitated, is to be attributed, not to the repeal of the usury laws, but to a vicious administration of the government and a monstrous profusion of paper money.

I must now beg of you to indulge me for a little, while I bring before you a similar state of things as those which existed in Indiana, in a State where the usury laws were never abolished, and where the legal rate of interest always remained at six per cent. per annum I mean the State of Kentucky. Let us recall to our minds the very memorable years 1818, '19, '20, and draw salutary and instructive inferences. Divination is forbidden to man, but experience is his privilege ; its lessons are to guide his conduct, and from what he has suffered he ought to guard against what he has to fear. The case of Kentucky affords a remarkable illustration of the very obvious truths on which we have now been insisting. In the year 1818, forty-three new banks were chartered in that State. Thirty-five went into operation ; their nominal capital was between seven and eight millions of dollars, but their actual capital, what by making loans on their own bank stock, and similar devices, must have been very small ; paper money became very abundant. There was a great expansion of the currency ; prices advanced. This was very agreeable to the speculator ; but in 1819 a contraction of the currency took place, which caused a pressure on the money market—reduced prices—paralyzed trade—brought about failures. Some of these banks made for a short period a show of specie payments, then paid out notes redeemable in three hundred and sixty-five days after date ; but before the close of the year few of them paid anything. The State of Kentucky then adopted what is called the “relief system,” stop-laws, stays of execution, &c. The judges of the courts, however, declared those laws unconstitutional. The Legislature established new courts, and judges were appointed friendly to the relief system. The people divided into two parties, and the contest was conducted with great violence. In 1826, the friends of the old courts elected a majority of the members of the Legislature, and have ever since retained the ascendancy. All parties now admit that this relief system was the cause of great evil, as it tended to destroy the confidence of men in one another, and in

the government; for governments were established for the protection of property, to insure and maintain the religious fulfilment of all engagements legally contracted.

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The pamphlet of Mr. Whipple, on the Usury Laws, demands our attention, from the importance of the subject, and from the claim made by the advocates of stringent usury laws, of his having treated the question with great ability; moreover, his pretensions in the outset are of a nature to excite no inconsiderable degree of expectation. He lays down the object of his treatise in the following words: "To make an attempt to remove the prejudices which prevail (to a limited extent) among some men in trade, on account of the gross misrepresentations which have been made by Mr. Bentham, and others of his school, I am satisfied that most men have not given themselves the trouble of investigating the true policy and design of those laws, nor the principle upon which they are founded." It is not my intention to attempt to demonstrate all the fallacies with which his treatise everywhere abounds. It cannot be considered as an investigation merely tinctured with doubtful or erroneous theory, but as a collection of positions, all of them either self-evident or obviously false, and founded on errors which the slightest attention is sufficient to detect. This is my fair and candid opinion, and I can scarcely doubt that it will also be that of every man who reads his pamphlet, with any reasonable knowledge of the subject. He has proceeded upon the common idea, that money is not the product of labor, "but is brought into existence solely by the action of government;" that it has no inherent value of itself; that the stamp of the government upon it is not a certificate as to the quantity of pure silver or gold contained in each coin respectively, but merely makes it a representative or test of the value of other articles.

Money, by which I mean the metallic currency—for bank paper is the creature of State governments, and is not recognised by the Constitution of the United States, which makes silver and gold alone a legal tender—performs several offices at

the same time. It is the security—the gage; it is, moreover, the measure. As a sign, money represents all other kinds of wealth; and, in passing it from hand to hand, we transfer a right to all other values. It is not money itself that the workman wants, but the food, the clothing, the lodgement, of which it is the sign. It is not in exchange for money that the manufacturer gives his goods, but for the raw material required for going on with his manufactory, and for such articles as he may want for his daily consumption, or his pleasures. It is not money that the capitalist lends to the merchant, but what the merchant thinks proper afterwards to purchase with this money; for, as long as he keeps it by him, he derives no profit from it; and it is only after the money is out of his hands, or that the sign is exchanged for the reality, that his principal produces. By an abuse of language, which has caused a great deal of confusion, and occasioned a great many errors, the words money and capital have become almost synonymous. Money, it is true, represents all other capitals, but it is the capital of no man; it is always unproductive by its nature, and wealth only begins to increase when we part with it. Money is not only the sign of all other riches, but it is also the security,—the gage; it not only represents wealth, but it is also wealth itself. It has been produced, like all other riches, by labor; it has cost as much to procure it from the mine, in labor and advances of various kinds, as it passes for. It furnishes to commerce an expensive commodity; because, purchased as all other riches are, it is the only kind of riches which does not increase by circulation, and is not destroyed by use. It passes, without alteration, from the hands of him who employs it for useful purposes, and of him who dissipates it for his pleasures. As its value has not been created arbitrarily, it cannot be destroyed arbitrarily. It may be sought after, according to the quantity there is in the market; for gold and silver, whether in coined money or in bars, obeys the same laws that are common to all other kinds of merchandise; their changeable value, or their price in products, depends on the quantity that there is in circulation compared with the demand for them. We are told by Say, that when, by the discovery of America, their

quantity was increased tenfold, they did not fall in value to ten for one, but only to four for one, that this was owing to the increased demand for commercial purposes, and for the arts, and for luxuries, which took place at this period.—“On a sudden, throughout Europe, a great impulse was given to industry: a much greater amount of the merchandise that was used as money was wanted than heretofore. At the same time, the way to the East, by the Cape of Good Hope, was discovered, crowds flocked to these new countries; their productions were sought after with avidity; the Asiatics, however, wanted none of the products of Europe, and received nothing in exchange but the precious metals; the trade with India absorbed an immense quantity; nevertheless, the products of Europe multiplied, wealth increased in every direction, pedlars became opulent merchants; the fishermen of Holland could count among their number—millionaires. Rare goods, that until then had been reserved exclusively for princes, were available to the middle classes. Furniture became much more splendid and costly; a large amount of silver and gold was converted into ornaments, plate, &c., and if the mines of America had not been discovered, there is no doubt that these metals would have been greatly enhanced in value, they would have doubled, trebled, perhaps quadrupled.” What may we not, therefore, anticipate from the discovery of the gold of California and Australia, and the trade that is now opened to us with China and Japan?

Money, besides, is a common measure of value; prior to its invention, it must have been extremely difficult to compare the value of a bag of wheat with a yard of cloth. Clothing is as necessary to man as food, but the means by which he obtained each of them seems scarcely susceptible of comparison; money has furnished a common and unchangeable unity, to which everything else can now be referred. Mr. Whipple tells us that “government possesses the power of converting lead or rags or silks into a currency, and the moment that is done, the lead or rags or silks become money.” This delusion has induced more than one government to convert rags into an irredeemable paper currency, and has caused the ruin of most of those coun-

tries. Forgetting that it is because the precious metals have an intrinsic value that they have become the standard of the value of every other commodity, and that paper having no intrinsic, but only a nominal value, never can be the security, the gage ; nor, whatever its amount may be, add anything directly to the national wealth. In using it we substitute a sign of no value for a sign which has an intrinsic value. The increase of paper, therefore, neither adds nor produces any wealth ; the multiplication of it can have no other effect than that of depreciating its nominal value.

Mr. Whipple does not seem to have given a moment's attention to the difference between money and capital. What private credit puts into circulation, is that portion of the products which, as they come into the possession of the consumer, are saved, economised by him, and placed in reserve, either from a love of accumulation, from a fear of poverty, or from a desire of having more comforts for himself and family. These savings are employed in two ways : first, when they fall into the hands of the prodigal and dissipated it only enables him to increase his expenditures, favors his ruin, and is as if nothing had been economised, as if everybody had spent all their income, all their proportion of the general products, and is therefore of no advantage to the community, and deserves neither consideration or favor ; second, when they get into the hands of the industrious and enterprizing, who employ them for useful purposes, and give occupation, and improve the condition of all classes of society, and thus become the true source, or rather the most powerful lever, of the prosperity and wealth of a nation ; the agent, the moving power which gives such great results, deserves all the attention and consideration of Government. Economy is very frequently confounded by the ignorant with avarice, but there is a wide difference between the frugal man and the miser ; it is true that both economise, that neither consume all the products of which they become possessed ; but the miser converts his savings into the precious metals which he buries in the earth, and thenceforth they are of no use either to himself or others. While, on the other hand, the economist employs his, and divides the new products ac-

quired therewith, with those to whom he furnishes the means of labor; he thus renders himself as useful to his fellow-men as the miser is useless and injurious. One thing is certain, that without economy there would be no capitals, without capitals no improvement, no progress, no increase, no adequate compensation for labor, no resources for the unexpected necessities and wants of either private individuals or of nations. Thus no undertaking, no work in our present state of civilization, can now be accomplished, without capital to put it in motion; but this capital, almost always represented by money, is nevertheless a very different thing. The increase of capital is the most powerful encouragement to labor, but the increase of money has not essentially such an effect. Capital has a powerful influence in producing riches: it gives birth, if I may so use the expression, to an annual income, but money remains sterile, and produces no income. The competition between those who offer their capital to those who perform the annual labor of the country is the foundation of interest. The accumulated capitals may be loaned to the government, for the service of the country, but the money which is used for the purpose of transmitting it, is only the instrument of the contract, and has no influence in fixing the rate of the interest. The laborer cannot work unless those who have accumulated capital, that is to say, the products of former labor, furnish him with the means, the capital; for he cannot labor without food and clothing. It is therefore impossible to pursue any branch of industry, to work, unless there is a pre-existent capital with which to purchase the necessary materials, and to pay the wages of the workmen; and if the workman makes these advances himself, he appears in the double capacity of capitalist and laborer. As the laborer requires the capitalist, so does the capitalist stand in need of the laborer, for his capital would be unproductive if it remained unemployed. Increase the amount of money in a country, without increasing the capital, you add nothing to the prosperity of that country, nor do you produce any effect on the rate of interest, as is evident in California and all other mining countries. Everything tends to show that the capitalist and the laborer are equally necessary to each other; and hence, as has

been most justly observed by one of our most distinguished writers on that subject, that “ all attempts to excite the prejudices of the poor against the rich, or of the rich against the poor, are no less injurious to the interests of both classes than they are criminal and detestable ; and that they most commonly emanate from unprincipled men, who can rise to notoriety in no other manner than by agitation, and who are willing to gratify their own lust of power at the sacrifice of the best interests of the community.”

I cannot conceive anything more loose, than Mr. Whipple’s mode of stating and answering arguments. He says : “ If Mr. Bentham contends that thirty per cent. is intrinsically as proper as six, he does not agree with most other advocates of the free trade system,” &c. He here does not state an opinion that any man ever maintained ; he fights with a creature of his own imagination, in order to defend a position clearly untenable, and which he could not have thought of holding, had he not been involved in a mist which has prevented him from ever getting a clear view of his subject. But, perhaps, he might be convinced of his oversight, if reminded, that he has himself, though inadvertently, stated, with sufficient precision, the doctrine maintained by his adversaries. He tells us “ that the owner of money, (by which he means capital,) prefers loaning it to men, and upon security well known to him. He may be willing to invest it in the stocks or lands of a foreign country, but very rarely does a capitalist send his money to a foreign country to loan to individuals. He has to encounter the double risk of the solvency of his agent, as well as that of the borrower. For many years money has commanded from twenty to thirty per cent. in many of the Western States, upon landed security, while it has been abundant in England and Holland at three and four,” and again, “ should the Government ordain that certain peculiar shells should constitute the currency, and be a lawful tender in payment of debts, that currency would possess the same power, though probably not the same value, as gold and silver.” It is by omitting the considerations of the “risk,” which always, to a certain extent, governs the rate of interest, and which usury laws must necessarily increase, and the intrinsic value of silver and gold, that in all the subsequent parts of

his arguments Mr. Whipple has fallen into his leading mistakes ; for his whole reasoning proceeds upon the neglect of the facts stated in the above quotations.

We now come to Mr. Whipple's peculiar theory, that an owner of the metallic currency of the country is not permitted to use it as he thinks proper, as he would merchandise ; he asks, "can an individual owner of a portion of the currency use it as he pleases, without regard to the object of its creation ?" He certainly can, and there is no lawyer among us who would not say that he has not both the legal and moral right so to do. He may lock it up in the vaults of a bank, and keep it there as long as he pleases ; he can have it melted down into ornaments or plate, and nobody will interfere with him. The actual monetary condition of a country cannot be affected by arbitrary laws ; government has no right to prevent the exportation or importation of the precious metals. These, like any other commodity, if let alone, will regulate themselves ; suppose, as Mr. Whipple suggests, that forty or sixty capitalists should buy up all, or nearly all, the metallic currency of the country, which he thinks they have the power of doing, the consequence would be, that there would be a scarcity of money ; the price of gold and silver would rise, for though you cannot purchase more wool, or butcher's meat, or cotton, with a barrel of flour, you can purchase more wool, or meat, or cotton, with the money than heretofore was paid for a barrel of flour. But it is easy to see that inasmuch as money prices are lower than any others ; that is, as specie retains its former value, in all other places, that it is only here that it is dearer and will purchase more than any other commodity ; other nations will send specie until the equilibrium is restored, and consequently the business of the country would not come to a stand, as Mr. Whipple apprehends. Besides, a man has the same absolute ownership over the silver and gold coin he may possess as he has over cotton or wool, or anything else ; and he has just the same right to make use of it, in any way he may think for his advantage.

The metals were used as a circulating medium, on account of their intrinsic value, before they were fashioned into coin ; we find, in Genesis, xxiii, 16 : "And Abraham hearkened unto Ephron ; and Abraham weighed to Ephron the silver which

he had named, in the audience of the sons of Heth, four hundred shekels of silver current money with the merchant." We see that at this time the money was weighed; that it was not paid by tale. Cattle were also used as a circulating medium on account of their value. We are told, by Homer, "That the armor of Diomede cost nine oxen." Thus we find that in all ages of the world it was indispensable, that what was used amongst *civilized* nations for a circulating medium should have an intrinsic value, which cannot be conferred upon it by the power of any government. I do not, however, wish to be misunderstood; we are told, and it is very true, that "The commerce of the world, at its present state, could not be carried on with oxen as a circulating medium; neither could it be, if we were obliged to exchange our gold and silver for the iron money of Lycurgus; it requires an article of high price, concentrating within a small bulk a large amount of value, representing a large amount of labor." "But there is a limit even to this. Precious stones are minerals, and they cost all the price at which they are sold; they are, however, too dear to be used for this purpose."

I have now to call your attention to a part of Mr. Whipple's pamphlet, to which I feel myself bound to advert, and yet approach it with a sense of pain; but I know of no excuse which can palliate such a perversion of facts as will be found in the following extract: "Say informs us, that in ancient times the more severe the penalties, the higher were the rates; but he furnishes no fact to justify his opinion. On the contrary, the only fact he does state refutes the whole proposition. He says that letters patent are still extant authorizing the Jews to loan at eighty-six per cent. per annum. Here then, is the customary rate in that reign under the free trade system. There was no indemnity for the risk of violating the law, because those rates were authorized by law. Previous to the reign of Henry VIII., the customary rates were forty per cent. The taking any interest was then denominated usury. In the thirty-seven of Henry VIII. the rates were established at ten per cent. They were reduced from time to time until the reign of Anne, when they were established at five per cent., and so continue until the present day." Now, let us see if the above

fact is reported with accuracy ; let us compare it with the original. I extract the following] from J. B. Say's Pol. Economy, vol. II, page 99, translating it from the French: "It is thus when they attempted to limit the rate of interest, or abolish it entirely, that they have constantly revived usury. The natural result was, the more violent the threats, the more vigorously it was enforced, the higher was the rate of interest. The greater the risks to the lender, the more necessary was it that he should be compensated by a high premium of insurance. At Rome, during the whole time of the Republic, the interest for money was enormous. We would have divined this, if we had not known it, for the debtors, who were the plebians, were always threatening their creditors, who were the patricians. Mahomet has forbidden the lending at interest ; what has been the consequence in the Mussulman territories ? They loan at usurious rates ; for of course the lender must be indemnified for the use of his capital, and at the same time for the risk of the infraction of the law. The same thing happened amongst Christians as long as the lending for interest was forbidden ; and when the necessity of borrowing made them tolerate it with the Jews, these were exposed to so many humiliations, outrages, extortions, sometimes under one pretext, and then under another, that a considerable interest was alone calculated to cover so many vexations and losses. *Letters patent were granted by King John in the year 1360, authorizing the Jews to loan on pledge, and receive for each livre, or twenty sous, four deniers for interest per week, which makes more than eighty-six per cent. per annum ; but, the following year, this prince, who nevertheless passes for one of the most faithful to his word that we have had, caused secretly the quantity of fine metal contained in the money to be diminished, so that the lenders, when they were reimbursed, only received a value equal to what they had loaned.*" It will be clear to all who have attended to the very able argument which I have just read, that Say shows conclusively, that the more severe the penalties were in ancient times, and the greater the risk, the higher was the rate of interest ; and that the risk of having the coin debased, a fact which Mr. Whipple keeps out of view, is sufficient to explain and to justify the high rate of interest which the Jews demanded. Let

us now see how far the facts given by Mr. Whipple himself as to the establishment of the rate of interest in England are correct. He states that "In the 37 Henry VIII., the rates were established at ten per cent. They were reduced from time to time, until the reign of Anne, when they were established at five per cent., and so continued until the present day."

An Act of the 37 Henry VIII., A.D. 1545, (Statutes of the Realm, 111, 996,) enacted that none should take [interest] above 10 per cent. per annum: this act continued in force seven years, until 1st May, 1552, when it was repealed 5th and 6th Edward VI., (Statutes of the Realm, IV., 155,) and the former prohibitions re-enacted, making all interest usurious. The statute 5th and 6th Edward VI. remained the law of the land until A.D. 1571, when it was repealed by the 13 Elizabeth (Statutes of the Realm, IV., 542) which recites that the said Act hath not done so much good as was hoped; but rather that the vice of usury, and specially by way of sales of wares, and shifts of interest, hath more exceedingly abounded; the limitation of the rate of interest was 10 per cent. This act was made perpetual on 18th same reign, A.D. 1576, (Statutes of the Realm, IV., 917.) You will perceive from the above, that the rates of interest were not only reduced from time to time, from 37 Henry VIII., but that the prohibitions were under Edward VI. re-enacted, making all interest usurious, and that a rate of interest was not permanently established until the reign of Elizabeth. To this wonderful woman England was also indebted for the complete restoration of the coinage; instead of debasing it as her predecessors had done, she restored its purity; the debased money of her father and brother was recalled and melted; there was received at the mint what passed current for above £638,000, its real value being only about £244,000, to such an extent had this nefarious and mischievous process been practised by the government.

It is not my intention to trouble you with a long dissertation upon the causes that in various ages of the world have produced a prejudice against the taking of interest; we must not, however, lose sight of the fact, that this prejudice extended to all profit received for the use of capital. The prohibitions by the Jewish law-givers extended only to the Jews themselves:

they were permitted to take what interest they pleased from strangers, and even if they had been more general, the parable of the talents: "Wherefore then gavest not thou my money into the bank, that at my coming I might have received mine own with usury?" (St. Luke, xix. 23,) shows that usury was actually enjoined by our Saviour. There is, however, no crime against which the fathers in their homilies declaim with more bitterness; and which the church has not pronounced against in the most peremptory and absolute manner, than the exacting of any kind of interest for the use of capital; and she only now escapes from those opinions, which were fulminated in an ignorant age, by subtleties that it is very difficult to comprehend. Like the reverend fathers Jesuits, who, after having translated, with commentaries, the Elements of Newton, feeling that this did not altogether coincide with Loyola, they took care to apprise the public, by an advertisement, that although in appearance they had demonstrated the movement of the earth, still they remained not the less submissive to the decrees of the Pope, who did not admit this movement.

The people of antiquity, and of the middle ages, only knew and only employed one way of obtaining wealth, to increase their riches, and to retain the possession of them; they placed their hopes, and their confidence, in the right of the strongest; and to that purpose their institutions, their legislation, their manners, and their customs, were made subordinate. They proposed as their only object, a numerous population, courageous, skilled in the use of arms, and always ready to sacrifice their lives in conquering other nations and appropriating to themselves their riches. The annals of all the celebrated nations of antiquity show uniformly this historical fact.

The Persians, first, then the Greeks, and Rome founded by thieves and fugitive slaves, who sought an asylum against the justice of the laws, subsisted for a long period on what they could pillage from their neighbors. Romulus was always at war for the purpose of obtaining women, citizens or territory. The riches accumulated at Rome by the pillage of Italy, of Gaul, of Spain, of Africa, and of the opulent provinces of Asia, became the exclusive patrimony of the patricians, and the cause of perpetual quarrels between them and the plebeians;

they gave to Julius Cæsar the means of destroying the liberty, and of enslaving his country. The people of the middle ages offer us the same spectacle: when there was nothing left to be taken from strangers, they made war on one another. Fathers, children and brothers, the king and the barons, the suzerain and the peasant, went to war with each other for the purpose of increasing their riches. But these universal and constant hostilities produced misery and poverty, the forerunners of that revolution which caused the ruin of the feudal governments.

But the sources of the riches of modern nations are totally different from those of antiquity and of the middle ages; riches are now obtained by industry, labor, economy and commerce, and not by the spoils of conquered foes. All classes of men now accumulate wealth, the laborer and the mechanic who place their little economies in our saving banks, as well as the merchant and the professional man. The laborer and mechanic are, however, prevented by our usury laws from obtaining the amount of interest they are justly entitled to; but when by sickness or other untoward events they are reduced to the necessity of borrowing on pledge, they are compelled to pay enormous rates of interest.

Mr. Whipple says: "Let us pause, at least, before we reverse the verdict of universal mankind." When Copernicus and Galileo taught for the first time that the sun, although we see it every morning rise in the east, ascend over our heads at noon-day, at night descend towards the west, did not nevertheless move from its place; they, also, had opposed to them the universal prejudices of mankind, the opinion of antiquity and the evidence of their senses. Ought they, therefore, to have renounced what was demonstrated to them? Hasty or ill advised experiments should not be adopted, or airy and unsubstantial theories pursued; but, nevertheless, the application of sound and wholesome knowledge to practical affairs should not be rejected; and advances towards improvement when founded in truth, should be pressed, although opposed by those who, incapable of comprehending, resist indiscriminately all reforms as innovations.

Mr. Whipple informs us, that "the truth is, that literary men of all ages have had some predominant hobby. At one time

the science of astrology ruled mankind. Next comes metaphysics, which employed the pens of the ablest men of its age. That science is now generally agreed to deal pretty much in moonshine, and has gone with its fellow science of astrology to the tomb of the Capulets. Next came political economy, which had its day, though a brief one." I envy not the feelings of that man who cannot take a laudable pride in every progress made in science, letters and arts, in all that constitutes an advanced state of civilization. As well might he liken Franklin and Jefferson to Robespierre and Marat, Washington and Bolivar to Julius Cæsar and Bonaparte, as to assimilate Jeremy Bentham and Ricardo to Bishop Berkeley and Cardano.

I will now recur to the prodigious effect produced by the writings of Ricardo; no man since Peter the Hermit and the days of Luther and Calvin has effected so much: with an intelligence never exceeded, and rarely equalled, he clearly demonstrated the iniquity, the folly and the injustice of usury laws. I will not fatigue you, gentlemen, by an unnecessary repetition of his arguments; his splendid exertions you are all aware were crowned with complete success. The usury laws, a relic of barbarous times, have been abolished in nearly all the nations of Europe.

I do sincerely believe, that these absurd laws will soon be repealed in America. I rely for this on the intelligence of the people. The United States is looked up to as the only truly free country on the face of the globe. Their example furnishes a salutary lesson to the rest of the world. Their progress, due to political, religious and civil liberty, stands unparalleled in the annals of mankind, and they cannot afford long to be in arrear of other nations in the progress of useful improvement.

## APPENDIX

### A.

*(Extract from the Report on the Currency, in reference to the Usury Laws.)*

“One of our most profound political economists having examined and discussed the operation of these laws in their various relationships—moral, social, economical and political—remarks, ‘that the usury laws, so far as they operate, have a tendency to check that salutary division of labor so essential to the prosperity of every community—to throw a clog on the great wheel of commerce.’ And as to agriculture, his condemnation of these laws, he asserts, ‘is in perfect harmony with that interest.’ The farmer, no less than the mechanic, the manufacturer and the merchant, suffers from the usury laws. The unrestricted use of money accelerates, while usury laws retard, the progressive development and general diffusion of wealth in a community, a state, or a nation.”

It has been remarked by Ricardo, that the true rate of interest depends altogether upon the “rate of profits which can be made by the employment of capital.” If it be fixed at a certain rate by law in seasons of pressure for money, the banks are unable to deal directly with those who are really in want of money, because on the first appearance of pressure the persons who hold money in banks, or who have superior influence with the banks, get possession of all the money in the market, (and many of these) lend it out at second hand, for much higher than the law permits the banks to take \* \* \* In this way our usury laws defeat those just and salutary benefits which our people have a right to look for, and to calculate upon finding in the business of banking as it should be conducted. \* \* \* If the rate of interest were not trammelled by legal restraints, it would become to every man having use for money, either as borrower, or lender, what the barometer is to the mariner, a guide by which to regulate his occupation, telling him when to spread or take in sail, when to contract or expand. By watching the rise and fall in the rate of interest, every man engaged in active business would be enabled to gain a correct knowledge, which is now possessed exclusively by a few of the shrewdest of our bank managers. \* \* \* Among the phenomena of the late revulsion, there was an evidence of the dangers which menace us financially so long as our

usury laws continue in force. When the great powers of Europe engaged in war, the rate of interest began to increase, and in the liquidation of the expenses of that war it arose to a very high rate. Every influence which could draw money from other countries was put into operation. New York being the principal point on this continent at which capital centres, became exposed for a long period, even after the war had terminated, to a system of depletion which taxed the financial resources of the whole country, and which finally precipitated to some extent the impending collapse. \* \* \* Experience having thus demonstrated that as in Europe they are unshackled by usury laws, we are exposed in great emergencies to sudden and powerful drafts upon our capital, one of the principal means for our safety in the future is to be found in the repeal of these laws. But we must submit to the loss of our capital so long as our usury laws exist, whenever Europe pleases to bid higher for money than these laws permit us to give; and the United States will continue to be used as a great reservoir of money, to be drained at pleasure by the governments and people of other nations.

## APPENDIX

### **B.**

By request of the Young Men's Association of the City of Albany, Mr. Gallatin delivered the foregoing address in the Assembly Chamber of the New York Legislature on the 2d March, 1859, when he took occasion to make the following remarks on the currency :

The framers of the General Banking Law of the State of New York, deeply impressed with the dangers of an unrestrained and unsecured emission of paper money, so fatal in its influence on prices, so distressing in its effects on the laboring classes, and so subversive of those principles of security to property, which are the foundation of all civil society, have, in order to remedy the evil, required the deposit of stocks, and bonds and mortgages, with the Superintendent of the Banking Department, as a security for the circulating bank notes ; these securities, though many of them are unavailable in times of great commercial pressure, secure the ultimate payment of the notes. Some good has been achieved by this. But experience has shown that this is not sufficient to prevent an expansion of the currency, which leads to over-trading, till over-trading again forces a contraction, thus producing those alternations of extravagant excitement, and of fearful depression, which this country has so often experienced of late years. The deposits, or cash credits on the books of a bank, whether made in specie, or bank notes, or arising from a note discounted by the bank, or from the collection of individual notes, or bills of exchange, are liabilities of the bank, payable on demand like bank notes in specie. The bank notes and deposits rest precisely on the same basis, for immediate payment on the amount of specie in the vaults. Bank notes, and bank credits, or deposits, are convertible into each other at the pleasure of the possessor. We can in no respect whatever perceive the slightest difference between the two ; and the aggregate amount of credits payable on demand standing on the books of the several banks, we cannot but consider, therefore, as being part of the currency of the United States. Merchants rely for the fulfilment of their engagements on their own resources ; banks, not only on their

own resources, but also on the probability that their creditors will not require payment of their demands ; this probability is always increased or lessened, in proportion as the liabilities of the bank are moderate or very great. The only efficient mode, therefore, of restricting the banks is in the amount of their loans and discounts, in reference to the capital actually paid in, and in requiring them at the same time to have in their vaults a certain ratio of specie as compared to their immediate liabilities ; (this exclusive of their circulating notes, as they have lodged security for their payment.) The efficiency of the first provision depends entirely on the restriction of the maximum of loans and discounts. It is the opinion of those, the best informed on the subject, that no bank should be permitted to extend its loans, including stocks, and every species of debt, beyond twice the amount of its capital. By the law of the State of Louisiana, no bank is permitted to let its specie at any time fall below  $33\frac{1}{3}$  per cent. of its immediate liabilities. I cannot, therefore, believe that any valid objection can be made to a restriction of 25 per cent. The excessive and fatal expansions of the years 1836-'37, and those of 1857, could not have taken place, had the maximum of loans and discounts been properly regulated ; and the banks at the same time been compelled to keep a fixed ratio of coin as compared to their immediate liabilities. The banks of Louisiana, where they are so restrained by law, did not suspend specie payments in 1857. The Governor of the State of New York and the Superintendent of the Banking Department, both urged, in their communications to the Legislature in January, 1858, the passage of an act fixing a minimum of specie. And certain banks of the city of New York, members of the Clearing House Association, at the commencement of the same year, feeling the necessity of having a restraint upon the discount lines of the banks, agreed among themselves to keep at all times 20 per cent. of their net deposits in coin in their vaults. This is too small an amount ; and experience has also shown that several of the banks do not consider this agreement as binding upon them ; and when there shall arise any considerable demand for specie, growing out of an unfavorable state of the foreign exchanges, or from any other cause, it will be found that nothing but a legal enactment, strictly enforced, will have the desired effect. Also, at a meeting of the said association held in March, 1858, it was proposed to enter into an agreement, if all concurred therein, not to allow interest on deposits or balances of any kind. Because, as it was asserted, " a bank having committed the first error of paying interest on deposits, is therefore compelled, by the necessities of its position, to take the second false step and expand its operations beyond all prudent bounds." Forty of the forty-six banks who composed the association signed this agreement ; three ex-

pressed their willingness to sign it, but the three remaining refused absolutely their assent, and the agreement was not consummated. Let it not, however, be supposed, that I state these facts to serve as an apology for myself, and for those who think and act with me; the measures of reform that we propose require no apology. I believe now, as I always believed, that they are calculated to promote the best interests of the people; and that those who either by their action in the Legislature, or the exertions of their talents out of it, may contribute to remove the defects existing in our monetary system, will have done themselves the greatest honor, and the country an essential benefit.

The suspension of specie payments in 1837, was felt in New York as a great calamity. We learn "that a small but determined party" viewed the suspension in its true light,—a state of disgrace and reproach, in which there could be no wholesome revival of trade, and not to be tolerated beyond the year granted by the Legislature. New York resumed triumphantly in May, 1838. In 1857, the banks of the city of New York, with a specie reserve of only twelve millions, loaned out \$122,000,000; although at the time the foreign exchanges were unfavorable to the country. They speedily saw their error, and in September of that year, by a rapid contraction, endeavored to turn the exchanges; in this they succeeded, but were in October forced to suspend specie payments, in the midst of a violent panic. The occurrence was looked upon, as twenty years before, as a national calamity; and the banks immediately adopted, unanimously, a resolution in favor of the earliest possible resumption. But within a few days there were symptoms of the same opposition to resuming specie payments that had been manifested in 1837. This time, however, the advocates of a prolonged suspension and inflation were within our own State; in 1837, they were in other States. But the movement for resumption was vigorously sustained by the more conservative banks; and they could have resumed in ten days after the suspension, as in consequence of the previous contraction all the exchanges had become favorable, and coin came pouring in from all quarters; indeed, the day after the suspension \$100,000 in specie was brought into the National Bank, to be exchanged for the bills of that bank—this, however, was refused. But it was desirable that the whole State should resume simultaneously with the city, and the volume of paper money of the country banks there was fortunately small enough to enable the city banks to take it up; this delayed the resumption sixty days—but it was highly beneficial to the credit of the State; for if the stocks lodged with the bank department had continued to be thrown on the market, they would have fallen still more in value: as it was, they fell nearly twenty-five per cent. The speedy resumption and

beneficial result have vindicated the wisdom of that measure, and those who were opposed to it now frankly confess that "time has shown it to be a substantial and permanent resumption." We had conceived that there could be but one sentiment in reference to the suspension and resumption of 1857: that there could exist no other than a feeling of sympathy and the greatest pain for the distress which then unfortunately existed throughout the State; thousands reduced to the greatest misery by the ruin of trade; fifty thousand working people thrown out of employment in the city of New York alone; the excruciating torments of the mind experienced by all classes of the community; do not these prove by their said memories, that some remedy is required, some checks and reforms needed? And here I cannot but express my astonishment that a gentleman for whom I have the highest regard—whose sincerity I cannot doubt—but whose judgment, in this respect, seems to be most unaccountably perverted, expresses the opinion "that the late suspension and resumption have *simply* brought out into bold relief the perfection of our free bank system in its connection with our currency."

May I now venture to intrude upon you an allusion to my personal feelings? Those who acted with me, as well as myself, were, in 1857, assailed and distressed by ungenerous appeals to our feelings? We were asked how we could, under existing circumstances, advocate and endeavor to enforce a speedy return to specie payments—persevere in this trial of a rash experiment, and in the pursuit of a hollow theory. Believing that the banks were bound by the strongest legal and moral obligations to resume specie payments whenever they were able to maintain such payments; that "there could be no wholesome, sound trade under a depreciated currency," and that a restoration could as easily be effected in two months as two years, these appeals, however painful to receive, had no influence on our conduct. We had a duty to perform. Immediate relief was then, in a great degree, out of our power, and it the more becomes us now to trace the calamities with which we were then afflicted, and to endeavor to prevent their occurrence. It is on this principle that I am anxious that all necessary checks and reforms should be applied to our monetary system—a system which, if let alone, will again lead to ruinous fluctuations in trade, and in prices of all commodities; a system which alike undermines the sober habits and the moral feelings of the community; which injures the poor man in the earnings of his labor, and takes from the rich man all security in his property, and which every succeeding convulsion must add to our inability to bear it.









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